Innovation and Corporate Social Responsibility: Role of Banking Sector in India

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Received: 10 May Revised: 18 May Accepted: 26 May

Abstract

The present paper aims to analyze the various social responsible practices of Indian Banking Industry and investigate the theoretical perspectives for the need of implementation of ethical social and responsible norms by banks in the era of innovation. The paper intends to study the various CSR initiatives of Indian Banks by analyzing their annual reports for the period 2007 – 2017. The study consists of 10 banks viz. 6 public sector banks, 2 private banks, 1 cooperative bank and 1 development bank. An index was developed by selecting 10 major initiatives of CSR undertaken and disclosed by banks. The major areas being focused by banks as CSR policy initiative are education of children and rural development. The results showed that the public sector banks have shown higher contribution in CSR activities than Private sector banks, co-operative banks and development banks. The study by analyzing the various reports of banks found that banks though are investing in responsible business but most of the banks found investing in a particular area leaving aside the overall development of society.

Keywords: Innovation, Ethics, Social responsibility, Banking sector.

Introduction

The advent of industrial revolution in the world brought the dynamic changes in the structure of the economies and this structural economic transformation brought dynamic changes within the sectors of the economy. The industrial revolution with the transformation took the shape of innovation wherein the new technology, new product and new processes were developed with the new ideas. With new techniques there is a widespread change in the minds of the people as well and witnessed attitudinal changes which gave birth to the ethical, social and economic ideas. These ideas in turn brought forward the term corporate social responsibility (CSR) which became relevant in mid 1970s with the seminal work of Milton Friedman in the financial world and later the term recognized itself as a significant and remarkable with the corporates highly engaging themselves in the CSR. The concept of CSR basically means initiatives being carried by companies in order to help the society and integrated into the business model in the day to day activities of the business. The growing concerns about sustainable development, environmental management and societal development in the era of innovation have laid importance to
the concept of CSR not only in the corporate sector but also in the financial sector. In the financial sector, several international initiatives like United Nations Environment Programme, Finance Initiative, Global Reporting Initiative, Equator Principles and Collavecchio Declaration on Financial Institutions are underway to ensure the adoption of CSR practices in normal business operations. Though the responsibility and social measures have come under the legal purview in India as Company Act 2013 have mandated banking institutions to invest two percent of their profits on CSR activities. CSR initiatives basically work as a standard of built-in, self-regulating mechanism and ensure their harmony with law, ethical standards and international norms. As a result the banking sector has undergone a transformation with adoption of new technology, development of new products and creation of alternate banking channels to serve customers (Kochhar, 2012).

Corporate Social Responsibility in India

Like other concepts the concept of CSR also came to India from the western countries. Before independence CSR as a concept demonstrated itself in charity being initiated by businessmen and philanthropist as religious beliefs but after independence the Gandhian philosophy of trusteeship came in and followed a strong belief that corporate mainly PSUs are the important for development. The post 1991 era of liberalization, Globalization and Privatization reforms allowed the entry of global players in the Indian economy and global standards of CSR motivated the local business houses to strategically invest in CSR to enhance brand value and customer satisfaction. Lately, CSR has emerged in India with global information sharing and the first country to mandate CSR for all corporates including the banking companies. The CSR in Indian Banking Sector is aimed towards addressing the financial inclusion, providing financial services to the unbanked or untapped areas of the country, the socio-economic development of the country by focusing on the activities like, poverty eradication, health and medical care, rural area development, self-employment training and financial literacy trainings, infrastructure development, education, and environmental Protection.

Phases of CSR in INDIA

<table>
<thead>
<tr>
<th>Phase 1</th>
<th>Phase 2</th>
<th>Phase 3</th>
<th>Phase 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>The period witnessed pure philanthropy through religious beliefs and charity through businessmen.</td>
<td>The concept of CSR followed the Gandhian philosophy and focused the role of PSU for the development of economy.</td>
<td>CSR emerged through the entrance of private players in the economy with liberalization, Globalization and Privatization reforms</td>
<td>CSR became globalized World and India became first country to mandate CSR for all corporates in 2013.</td>
</tr>
</tbody>
</table>

Source: author’s analysis

Literature Review

The CSR practices in the banking and financial institutions of India were studied through different case studies and the efforts of various researchers and noticed strategic initiatives of banks which involved
education, balanced growth (different strata of society), health, environmental marketing and customer satisfaction. The Indian banking industry is found to be adopting an integrated approach by combining CSR with the ultimate customer satisfaction irrespective of location and the nature of CSR activities undertaken by banks is found to be similar (Narwal 2007, Chaudhary et.al. 2011, Bosque et al. 2012). The banking industry has found a significant change with CSR concept and its execution in India while various qualitative variables found that most of the Banks use CSR practices as a marketing tool and many are only making token efforts towards CSR in the form donations to charitable trusts, NGOs, sponsorship of events, etc. There are less number banks clearly signifying CSR philosophy (Vijay .P and Divya .N 2014, Dhingra and Mittal 2014; Khan 2016). The focus of the Indian finance industry and its trend were noticed with an emerging practice about CSR initiatives in India as the ground of qualitative evidence from the Indian financial sector with regard to CSR operations (Sophie Hadfield-Hill 2016). In 2013, it has been made mandatory for companies to spend 2% of profits on CSR according to Companies Act, 2013. The analysis even showed that, these banks are making efforts for the implementation of CSR, but are not spending their 2% share of profits on CSR and there is a need for better CSR activities by the banks, which is possible by adding more and more social development issues link with corporate sector (Sharma 2016). Thus banks in the form of CSR are providing a great help to the society in addition to the services provided its clients of saving and accepting deposits.

The prodigious literature analyzing the CSR initiatives by the banking sector in India amid innovation suffers from the unavailability studies in context to banking sector. Moreover the studies are confined to study the CSR initiatives on subjective measurement techniques.

**Objectives of the Study:**
The Research Paper aims at following objectives:
1) To study concept of Corporate Social Responsibility (CSR) in the era of innovation.
2) To know major CSR initiative undertaken by selected Indian banks by constructing CSR index.

**Research Methodology:**
This research paper is conceptual and analytical in nature. It also aims at providing a description and clear picture of Corporate Social Responsibility of selected banks in India. Ten banking and financial institutions are selected under stratified random sampling method from the number of commercial banks in the country. Further, the present study covers six nationalized commercial banks including State Bank of India, two private sector banks, one cooperative bank and one development banks. An index of social disclosure listing the items of information has been designed. In this case, the key fact is whether or not a company discloses an item of information in the annual report. If a banking company discloses an item of information in its annual report, then 1″ will be awarded and if the item is not disclosed, then 0″ will be awarded. Thus, the unweighted disclosure method measures the corporate social responsibility reporting index (CSRRRI) score of a banking company as additive (suggested by Cooke, 1992) as follows:

\[
\text{CSRRRI} = n \sum_{i=1}^{n} d_i
\]

Where,

- \(d_i\)
The index of social disclosure constructed in this study consists of broadly 10 items of information. The items of information in the Index of Social Disclosure have been classified under different major groups.

**Data Sources**

The proposed study will be based on secondary data. The secondary data will be collected from various annual reports, directors' report, and statistical tables of Indian banking, RBI publications and various websites of government of India.

**The Corporate Social Responsibility Initiatives of Banks**

By analyzing the reports, websites the following initiatives are noticed implemented by banking sector in the country.

The CSR initiatives undertaken by various banking institutions across the country can be summarized as following:

**The Corporate Social Responsibility Initiatives of Selected Banks**

**State Bank of India**

The bank engages in strong CSR philosophy and committed to nation building through community service banking while performing their day to day normal function. The bank as CSR initiative lay special importance to females basically girls by an action of adoption of girl children as a distinguished feature. Apart from the adoption of girl child bank also extend their hands towards society through microfinance...
to the vulnerable group, funding of education through research and development and rural development through community service banking. The bank found investing a large sum in the CSR activities and the major CSR initiatives undergone by banks included community services banking, rural development, adoption of the girl child and education.

**Punjab National Bank**
The bank adopts CSR policy through the creation of social capital and aims at social responsible investment. The CSR policy of banks aims at sustainability, social investment, education and health and also established two trusts for rural development through inclusive growth of Indian economy. Apart from this Bank laid emphasis on capacity building and training of intermediaries. The bank even set up Rural Development and Self Employment Training Institute in the rural areas as per the rules laid by Ministry of Rural development and CSR policy of bank mainly aims at rural development. The major CSR initiatives initiated by banks included corporate volunteering, social Investments, health, education.

**Union Bank of India**
The bank under CSR policy initiatives established Union Bank Social Foundation and the annual report of the bank demonstrated a fixed and constant percentage of profit being invested in CSR activities for the development of the society. Furthermore the CSR policy mainly focused on child and women development for the betterment of the society. The major CSR initiatives undertaken by banks included Farmer’s Club Village Knowledge Centers, Joint Liability Groups for promotion of SHGs, rural development and education.

**Bank of Baroda**
The bank has a long vision and well-knit strategies for CSR policy initiatives for the development of underprivileged and weaker sections of the society. The bank aims at socioeconomic development of society with no fixed budget being allocated among CSR initiatives and established the large number of rural consultancy centers for the rural development under the head of CSR initiatives. Another significant contribution of the bank is the adoption of village for their all-round development. The major CSR initiatives of banks included education, environmental issues, financial support to vulnerable sections of society through micro financing, MSME financing, dairy development, agriculture development.

**ING Vysya Bank**
The bank has a long vision and well-knit strategies for CSR policy initiatives for the development of the economy and aims at socioeconomic development of society. The bank demonstrates a separate section in its annual report regarding CSR initiatives and major areas being covered under CSR policy of the bank includes educational support, environmental issues, community development.

**Bank of India**
The bank under CSR policy initiatives works on the lines of social banking and priority sector lending. The bank found investing in priority sector lending by extending their hands to poor and underprivileged through 8 percent or more investment over and above the aid principles of RBI. The
major CSR initiatives practiced by banks are education, environmental issues, financial support to vulnerable sections of society through micro financing, MSME Financing, dairy development, agriculture development.

HDFC Bank
The bank adopts CSR policy through socioeconomic development and aims at social responsible investment for weaker sections of the society. Although the bank has no separate budget for CSR being demonstrated in its annual reports but found investing a huge sum for the betterment through different policy initiatives. The bank under CSR regime found investing in education, livelihood vocational training and micro financing for poor.

Canara Bank
The bank engages in strong CSR philosophy apart from performing their day to day normal function of saving and lending. The bank in its annual report released a separate section of CSR which basically works on socioeconomic development, rural development and sustainable development of the economy. It is even found that bank do not spend a definite percentage of amount in CSR policy but still it invests in education, vocational training, rural development and micro financing for the development of the society.

Saraswat Cooperative Bank LTD
As the cooperative bank, bank engages in strong CSR philosophy and committed to nation building through community service banking and rural development. The bank aims at socioeconomic development of society with the rural banking approach and also paying attention to the cultural interest and environment issues. It is even found that bank do not spend a definite percentage of amount in CSR policy through protecting cultural lineage, assistance to national and natural calamities, educational support, rural development, community development and environmental issues.

Small Industry Development Bank of India SIDBI
The bank under CSR policy initiatives works on the lines of social and responsible banking through commitment within the bank and outside. The bank engages in CSR policy through investment in the MSME sector, social welfare of the underprivileged and through capacity building program provided to human resources of both SIDBI and MSME sector. The major CSR initiatives undergone by bank included Sustainable Banking, Environment protection, Social Commitment.

The table-1 shows the corporate social responsibility initiatives of selected banks of Indian banking industry. The CSR initiatives of banks are taking the form of products being allocated to the society in the form of educational support, rural development schemes, women empowerment schemes and various MSME financing support programmes in Indian commercial banks. The table-1 shows that banks are the financial supporters of the country also help its development through pointing the weaker sections of society. These efforts of these financial supporters either take form of fulfillment of basic necessities of livelihood of weaker section like education or through social and rural development. Moreover the table
even depicts that out of the banks being selected most of the banks being engaged in rural development or educational support.

### Table-1 CSR Activities in Indian Banking Institutions

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Banking Institutions</th>
<th>CSR Activities in Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>State Bank of India</td>
<td>(a) Community Services Banking. &lt;br&gt; (b) Rural Community Development. &lt;br&gt; (c) Adoption of the Girl Child. &lt;br&gt; (d) Research and Development on Education.</td>
</tr>
<tr>
<td>2</td>
<td>Punjab National Bank</td>
<td>(a) PNB Farmer Welfare Trust &lt;br&gt; (b) Farmers Training Centers &lt;br&gt; (c) Model Villages &lt;br&gt; (d) PNB century Rural Development Trust &lt;br&gt; (e) PNB SwarozgarVikasSanthan</td>
</tr>
<tr>
<td>3</td>
<td>Union Bank of India</td>
<td>(a) Farmers Club. &lt;br&gt; (b) Village Knowledge Centers. &lt;br&gt; (c) Joint Liability Groups for promotion of SHGs. &lt;br&gt; (d) Rural Development. &lt;br&gt; (e) Educational support.</td>
</tr>
<tr>
<td>4</td>
<td>Bank of Boroda</td>
<td>(a) Rural development. &lt;br&gt; (b) Women's empowerment. &lt;br&gt; (c) Vocational training. &lt;br&gt; (d) Community Welfare. &lt;br&gt; (e) Physically Challenged. &lt;br&gt; (f) Poverty Eradication.</td>
</tr>
</tbody>
</table>
| 5 | **ING Vysya Bank** | (a) Educational support.  
(b) Environmental issues.  
(c) Financial support to vulnerable sections of society.  
(d) Community development. |
|---|-------------------|---|
| 6 | **Bank of India** | (a) Educational support.  
(b) Environmental issues.  
(c) Financial support to weak sections of society through micro financing.  
(d) MSME financing.  
(e) Dairy development.  
(f) Agriculture development. |
| 7 | **HDFC Bank Ltd** | (a) Educational support.  
(b) Livelihood training and support.  
(c) Vocational and technical education.  
(d) Micro financing |
| 8 | **Canara Bank** | (a) Rural Clinic Service  
(b) Rural Service  
(c) Volunteer Scheme  
(d) Rural Resource  
(e) Development Centre |
The table-2 is the outcome of corporate social responsibility reporting index (CSSRI). The table is based on the disclosure and scoring method. The scores were imparted to the banks according to their disclosure of CSR initiatives in their annual reports. The table even shows how much the banks are investing in CSR by multiple initiatives.

**Table – 2 CSR Rating with Select Commercial banks in India**

<table>
<thead>
<tr>
<th>SR. No.</th>
<th>CSR INITIATIVES</th>
<th>SBI</th>
<th>PNB</th>
<th>UBI</th>
<th>BOB</th>
<th>IVB</th>
<th>BOI</th>
<th>HDFC</th>
<th>CB</th>
<th>SCB</th>
<th>SIDBI</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Educational Support</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>Rural Development</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>3.</td>
<td>Community Welfare</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>4.</td>
<td>Poverty Eradication</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>5.</td>
<td>Vocational Training</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Annual Reports of Banking Institutions.
The table-2 was drawn by selecting the broad ten headings of various CSR initiatives. The selected banks were then scored and according to this scoring index, the banks were analysed in the perspective of CSR. The banks according to this index showed the sound results as all banks were found investing in CSR initiatives in one or the other way. Among selected banks the Bank of Baroda was found investing well by earning the first rank and investing in almost every initiative being selected followed by ING Vysya Bank providing a helping hand to society by scoring 7 points. Secondly Bank of India performed well by scoring 6 points according to the index. Then the major public sector banks (SBI, PNB), the cooperative bank (Sarawat Bank) and the development bank (SIDBI) were found performing in the perspective of CSR basically at 50% level. Lastly the private banks mainly Canara Bank and Union bank of India were noticed scoring 4 points and HDFC scoring 3 points as according to the CSSRI.
Findings of the study
The corporate social responsibility reporting index (CSSRI) constructed in table-2 showed the performance of banks in the field of CSR. The index actually put forth the picture of banks which revealed that public sector banks are initiating more efforts among CSR initiatives in comparison to private sector banks of India. Furthermore the Cooperative bank and development banks were found performing sound in CSR initiatives.

Conclusion
It is observed that all the financial and banking institutions of the country is directly engaged in social banking and development banking approach by adopting various CSR initiatives. The majority of banks are performing well for the implementation of CSR in their business. It is being observed that the banking institutions in one way or the other helping the society to develop sustainably through this social banking approach. The major areas being focused as CSR policy initiative is education of children, rural development and environment. At the end, the public sector banks have shown higher contribution in CSR activities than Private sector banks, co-operative banks and development banks. It is moral responsibility of all banks to contribute to the society which is the main cause of the development of its business ultimately leading to economic development.

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